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The Conference Board
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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

April, 1984

The Conference Board

The Conference Board Survey of Financial Indicators

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Introductory Note: This is the sixteenth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

Two issues were viewed with increasing concern in the first quarter of 1984, the second year of economic recovery in the latest business cycle. The first issue was whether the U.S. economy had "turned the corner" on inflation, or whether the underlying or "core" rate of inflation was now close to 7-8 percent or, perhaps, higher. The second issue was whether the U.S. economy would experience a recession that would begin in 1985. These concerns were strengthened by the rapid rate of real growth in the first quarter, the rise in interest rates in March, and the apparent strengthening in the demand for short-term credit.

The majority of the 38 senior financial executives who participated in the sixteenth semiannual survey of Financial Indicators and Corporate Financing Plans:

- Look for an average rate of inflation of slightly less than 6 percent annually over the coming five-year period—well below the 8 percent rate that several other surveys of business executives have found;
- See real economic growth continuing through 1985, averaging 4.8 percent this year and 3.7 percent in 1985;
- Look for relatively little change in short-term and long-term interest rates, though the yield curve is expected to flatten by 1985;
- Expect all major currencies to strengthen against the U.S. dollar;
- Have apparently succeeded in "putting their houses in order," restoring internal financing to 81 percent of total corporate funds.

U.S. Financial Indicators

The participating financial executives see real economic growth continuing, at least through 1985. No executive looks for real economic growth to average less than 2 percent in either 1984 or 1985 .

Inflation is expected to rise, by nearly one percentage point, from an average of 4.7 percent in 1984 to 5.6 percent in 1985. Only one executive sees the rate of inflation reaching as high as 7 percent in 1985, the highest rate anticipated for any of the forecast periods.

In line with this view, short-term interest rates are expected to rise by an average of more than 1 percent, with the prime rate rising from an average of 11.3 percent in 1984 to 12.5 percent in 1985. The increase in short-term rates presumably reflects a further reliance on short-term credit in the third year of recovery, a normal occurrence in the financing cycle that mirrors the business cycle and its requirements. Long-term interest rates, however, are anticipated to rise only slightly, with the Aaa rate rising from an average of 12.3 percent in 1984 to 12.6 percent in 1985. The panel seems to be assuming that the present level of long-term interest rates has already discounted the cyclical rise in inflation that normally takes place at this stage of the cycle. (They also seem to be assuming that constructive action will be taken to reduce the Federal Government's deficit.)

An analysis of earlier surveys shows that the panel has generally underestimated inflation and interest rates when they were rising, and has overestimated inflation and interest rates when they were declining.

Reassessing Inflation

The average rate of inflation for the coming five-year period will be 5.9 percent annually, according to the 35 executives who provided their estimates of inflation. This rate is slightly higher than the average of 5.6 percent than the panel forecast last April, and, of course, it starts one year further into the recovery (thereby eliminating one year of low inflation immediately after the recession). The rate of 5.9 percent is well below the actual rates of inflation experienced during the two latest five-year periods: the average rate of inflation was 7.5 percent annually during 1979 to 1983; and the rate of inflation averaged 7.3 percent annually during the years 1974 to 1978. The majority (19) of panel members look for inflation to average at least 6 percent but less

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than 7 percent. The remaining estimates fall wihin a relatively narrow range: No executive sees the rate of inflation averaging more than 7.1 percent or less than 3.5 percent in the latest survey.

particular. The survey, surprisingly, does not yet show a pronounced movement toward either of these financing patterns, though there is a hint of an increase in corporate reliance on short-term bank loans.

The Panel's Five-Year Inflation Outlook

	less than 4 percent	*4 percent but less than 5 percent*	*5 percent but less than 6 percent*	*6 percent but less than 7 percent*	*7 percent and above*	*Range (percent)*
April, 1983 Number of panel members . .	1	5	15	6	4	2.5-8.2
April, 1984 Number of panel members . .	1	2	9	19	4	3.5-7.1

Corporate Financing Plans--March 1, 1984 to February 28, 1985

During the latest 12-month period, the companies participating in this survey have once again returned to a heavier reliance on internally generated funds. Internal funds constituted 81 percent of total corporate funds, a percentage that was more in line with the 80 percent average that existed in each year of the period 1975 to 1979, prior to the severe slowdown in U.S. economic activity.

The external financing pattern during the latest 12-month period was marked by an unusually heavy reliance on net new equity. Companies raised 30 percent of all external funds through new equity issues. The larger companies also started to rely more heavily on commercial paper, which constituted approximately 19 percent of total funds.

The business cycle has now reached the stage where companies should start to place relatively greater reliance on external funds, and on short-term credit in

The International Environment

There is unusually strong unanimity on the part of the financial executives whose companies engage in international operations that other currencies will strengthen against the U.S. dollar. For the second time in succession, and for the second time in the history of the survey, no other currency is expected to weaken against the U.S. dollar during the two forecast periods. In most cases, the majority of panel members see a moderate strengthening of other currencies against the dollar, with an appreciation in the range of 1 to 5 percent.

The majority of panel members also see a moderate rise in the U.S. dollar price of gold during both forecast periods. This moderate rise is consistent with the panel's expectation that there will also be only a moderate rise in inflation in the United States.

Vincent G. Massaro

Please Note: In the interest of speeding the data contained in this publication to you, these series are now available on-line through The Conference Board Data Base. For more information, call Linette Stein at (212) 759-0900.

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate, and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook: Average (June '84 (2nd Q GNP)	Outlook: Average Sept. '84 (3rd Q GNP)	Outlook: Average 1984	Outlook: Average 1985
New Aaa industrial rate (%)	12.0	12.3	12.4	12.3	12.6
Prime rate (%)	11.0	11.2	11.3	11.3	12.5
Dow-Jones Average (Index)	1,259.0	1,191.0	1,217.0	1,203.0	1,209.0
Real GNP (%)	4.5	4.4	4.2	4.8	3.7
GNP deflator (%)	3.9	4.7	5.1	4.7	5.6

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds[1]	81	18	4	9	0	5
External Funds	19	18	0	5	4	9
	100%					
(b) Composition of *External Funds*						
Net bond issues	17.2	22	0	2	0	4
Private placements	– 1.3	18	0	5	3	2
Net new equity	30.2	17	1	5	2	3
Bank term loans	19.3	19	1	3	1	4
Bank short-term loans	– 1.2	21	1	4	1	1
Commercial paper	16.8	19	2	2	1	4
Other	19.0	19	3	2	1	3
	100%					

[1]Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of March 1, 1984:

	Latest Available 3/1/84	Expected Change: By June 30, 1984 Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By September 30, 1984 Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .7990	26	8	0	0	0	22	11	0	1	0
British pound	1.48	2	27	4	1	0	2	24	7	1	0
German mark	.3836	3	17	11	1	0	2	17	13	1	0
Japanese yen	.0042	5	21	6	1	0	4	17	10	2	0
Gold	$392.75	3	24	4	0	0	4	16	10	1	0

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